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FOC MAIL ROOM

September 14, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

Re: CC DOCKET 96-45, FEDERAL-STATE JOINT BOARD ON UNIVERSAL
SERVICE

Dear Ms. Salas:

Enclosed is an Original and twelve copies of the Maine Public Utilities Commission ex parte presentation made to various staff members of the Commission on September 4, 1998, in the above docket. Please date stamp one copy and return in the enclosed self-addressed envelope.

Sincerely,

Joel Shifman

cc: International Transcription Service
Brad Ramsay

cc'd 0211
ACTIVE



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Agenda Meeting with Kathy Brown

- I. Introductions
- II Three different views of the Federal Universal Service Fund Purpose. (See handout)
- III. The importance of the second view in terms of the rural states and the FCC carrying out the comparable and affordable rate objectives of the Act.
- IV. Brief discussion of ad hoc group (efforts, objectives) and work thus far. (See handout #2)
- V. Discussion of overall fund size and how the three different views fit together considering the funding limitations.
- VI. Need for model output data in advance of the Tampa meeting in order to price out various options.

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High Cost Support: Three Issues

8/27/98

	"Interstate Access"	"High Cost"	"Implicit Subsidy"
Rate Jurisdiction	Interstate	State	State
Rates in Issue	Interstate Access, SLC, PICC	Local, state toll	Local, state toll
Support is needed because of competition.	. . . preexisting cost.	. . . competition.
Immediate Risk of Failure	High-cost areas: slows entry of facilities-based CLECs Low-cost areas: incentive for inefficient bypass of ILEC facilities	Rates not reasonably comparable Rates not affordable	High-cost areas: slows entry of facilities-based CLECs Low-cost areas: incentive for inefficient bypass of ILEC facilities
Long-Range Risk of Failure	ILECs lose most desirable customers	Loss of network penetration	ILECs lose most desirable customers
"Implicit Subsidy"¹	- Low-cost areas to High-cost areas - Short-loop customers to long-loop customers - Customers to ILECs due to noneconomic pricing	None	- Low-cost areas to High-cost areas - Short-loop customers to long-loop customers - Business customers to residential customers - Toll & access customers to local service customers - Customers to ILECs due to noneconomic pricing

1. Not all observers agree that each of these is an "implicit subsidy."

High Cost Support: Three Issues

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	"Interstate Access"	"High Cost"	"Implicit Subsidy"
When Support Arrives, It Must Coordinate With State Policy On . . .	- UNE price averaging	- State support, if any, under § 254(f).	- State support, if any, under § 254(f). - UNE price averaging - Retail price averaging - Higher local rates for long loops - Rate designs for business & residential customers - Rate designs for toll & access v. local
Scale of Cost Study Needed to Calculate Support	Fine scale (wire center, CBG, or smaller)	Large scale (ILEC study area or state)	Fine scale (wire center, CBG, or smaller)
Primary Driver of Support Calculation	Number and cost of high-cost customers above benchmark.	Proportion of high-cost to low-cost customers.	Number and cost of high-cost customers above benchmark.
Size of Problem	\$6 billion (GTE)	\$2 billion (all carriers)	\$8 billion (excluding \$2 billion from high average cost)
New Federal Program Would Displace Revenues From . . .	Interstate access charges	State rates and existing federal programs (below)	State rates
Existing Federal Explicit Support (\$ to <u>non-rural</u> carriers)	- Long Term Support (\$0 MM) - TIC (\$___ MM)	- Loop Support (\$ 217 MM) ² - DEM Weighting (\$ 0 MM) ³	None

2. Estimate from *Payers and Receivers: Various Proposals for the High Cost Fund*, Telecommunications Industries Analysis Project, 3/10/98, rev. 4/22/98 at 4 (assumes "non-rural companies are those with a total of more than 100,000 access lines).

3. *Id.*

Ad Hoc Universal Service Principles

- The principal purpose of federal high cost support is to maintain reasonably comparable intrastate rates.
- Consumers in rural, insular and high cost areas should have access to a similar spectrum telecommunications services as consumers in urban areas, at rates that are reasonably comparable to rates charged for similar services in urban areas elsewhere in the country.
- The federal high cost support program should be as small as possible.
- Revenues for the federal high cost support program should be derived from a charge on only the interstate revenues of interstate carriers.
- Collection and distribution of high cost support should be competitively neutral.
- Federal support should create appropriate incentives for investment in the network.
- Federal support for high cost areas should be compatible with the method of separating costs and revenues between interstate and intrastate jurisdictions.

- Federal support for high cost areas should be distributed in a manner determined by state commissions and that is compatible with the state's decisions on related issues of rate deaveraging and establishing the size of service areas.
- Carrier earnings should be based upon success attracting customers in a competitive market, no based upon exploiting irregularities of state and federal policy.
- Federal support should be based upon cost, and should be based upon the differences among the states in the ability to provide reasonably comparable rates with internally generated explicit subsidies. Federal support should permit each state to have rates equal to the overall national average, which is an acceptable definitions of rates "reasonably comparable" to urban rates.
- Both forward looking cost and embedded cost should set upper limits on federal support. This will ensure that any errors generated by forward-looking cost models do not have unduly harsh consequences.
- Federal support should consist of a single system. No distinction should be made between rural and non-rural carriers, nor between loop and switch costs.
- Carriers should be assured that federal support will not decrease until the reliability of forward looking models has been securely established.

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, D.C. 20554

In the Matter of

Federal-State Joint Board on
Universal Service

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CC Docket No. 96-45

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing documents
have been furnished to the parties on the attached service list this 14th day of
September, 1998.



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